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Rochester Institute of Technology

A BUSINESS PRIMER FOR THE ARTIST/CRAFTSMAN

A thesis submitted to the faculty division of
the College of Fine and Applied Arts in
candidacy for the degree of Master of Fine Arts

Department of Metalsmithing and Jewelry

by

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INTRODUCTION

Modern day economic theory of our industrialized society finds its origin in the works of Adam Smith ("The Wealth of Nations," 1776) and the basic ideas he advanced, on the essential functions performed by the free market mechanism.¹

The free market theory holds its faith in human incentive and initiative. In the United States, the present economic environment created by the historical growth and development of capitalism has motivated most people living within this economic system to be profit-oriented. In order to sustain a particular standard of living within the present system, a person must maintain a necessary variety of assets, income and/or cash flow, in accordance with their personal and, perhaps, fluctuating needs.

Traditionally, as the economic system becomes apparent and more acutely organized to the artist, its organization is resisted by the artist.

Economics has never had a serious view of art. Science and technology are important matters. Painting, sculpture, music, the theatre, design are more frivolous. The manufacture of canvas, paint or pigment is a worthy concern of the economist: anything that lowers the cost of these commodities or expands their output contributes to economic goals. But the quality of the painting as distinct from the paint or what causes artists to colonize, multiply and prosper has never been thought a proper concern of the subject. Artistic achievement may, in principle, be part of the claim of an age or place to development. But as compared with the productions

of goods or technical or scientific accomplishment it has no practical standing. None of this is an accident. The relevant attitudes are firmly grounded in the nature of modern economic society.²

For the professional artists and craftsmen with a mass of knowledge in the art and craft field, there exist two possible avenues by which one can enter the economic system. In both, the artist and craftsman are the source of a specialized input into the system. The acquired body of knowledge, discipline and skills attributed to the field may be expounded upon and applied to the employment market through educational institutions, industry, the economic marketplace, and/or grants in technical research, aesthetics and design studies. To cite a few examples, an individual could apply oneself to teaching, to the administrative realm of the art and craft field or to an area such as the restoration of dated artifacts. The input to the market in this particular perspective is the knowledge and expertise in the art and craft field.

Secondly, the pieces the artist and craftsman create and produce become defined by the market system as products, or more specifically, commodities. In this case, the artist/craftsman is the source of the commodity: versus the collected energy of a group of persons being the source of the commodity (as in the automobile industry, with the automobile being the commodity).

To engage in the economic system as professional artists and craftsmen via the product, which is obviously of limited production, the product must be

exposed and marketed through the existing system and the structures within. A thorough understanding of the organizational forms, the channels and methods of distribution, and the markets within the economic system is essential in preparing and indulging in the realities of the economic systems of a capitalistic society. This general understanding of the present economic system in which business enterprises are an intricate part, will allow the artist and craftsman to function intelligently in continuing individual, quality-gearred design interest and expertise.

In understanding these capitalistic systems and their implications, the artist can minimize design versus economic compromises that will tend to cause pressure, particularly at the beginning of one's career. Unless the artist/craftsman chooses to enter the employment market via the administrative and supportive functions of the field, where one finds an already established conformity to lean on, the artist must understand some of the basic business principles in order to develop a unique entry into the marketplace. Understanding the realities and patterns of the economic system with which one must be involved will help guide progress in an optimum manner. It can minimize false starts and help prepare career paths with meaningful expediency.

ORGANIZATIONAL PATTERNS

The basic principles of organization are the same whether the enterprise or endeavor be charitable, religious, educational, economic, military or governmental. However, the specific organization's structure will vary to meet the requirements of the particular situation and the organizational philosophy of the responsible heads.³

Historically, capitalism in the United States has been based on the existence of a free market. "This is the individual's right to initiate the production and distribution of any kind of goods and services he wishes to make and sell."⁴ Unlike the countries where the government controls what, where and how goods are manufactured and distributed, the United States exemplifies a free market economy.

The free market has led to the structuring of business activities, the innovation of business management as a profession and government intervention when an enterprise threatens freedom and the well-being of the public. Due to the historical development, industrialization and economics have taken in this country, the professionals in the business field have had to develop sophisticated business techniques and organizations in order to survive and compete. One of the necessary results of this development is the legal structure which has evolved to satisfy the various needs of businesses.

The individual proprietorship, the partnership and the corporation are the three principal legal structures within which business operates. Each structure has its advantages as well as its disadvantages. The chosen type of organization should optimize such considerations as the needs and goals of the enterprise, the capability of financing its operation, minimizing tax liabilities and effecting the desired market penetration. Each organizational form should be viewed and studied carefully. Care in the consideration and analysis of the available business structures will aid in efficiently developing and marketing the product to its fullest potential, and also aid in the sanctuary of one's sanity initially. Each organizational form should be viewed by the artist with particular attention to the freedom one has to function unencumbered by excessive restrictions, legal complications and governmental regulations and reports.

Individual Proprietorship

The individual proprietorship is the simplest way to go into business, and consequently, it is the way the majority of the ten million businesses in the United States are organized. In some parts of the country you can simply rent space, buy goods and equipment, and start working. In other areas, state or local licenses and registration may be required.⁵

The ease in the formation of a sole proprietorship is rather attractive in contrast to the legal formalities and restrictions associated with establishing a partnership or corporation. No government approval is necessary, but in some instances, licensing and registration may be required. The cost of the fees for licensing and registering are low and less expensive than for a partnership or corporation.

An individual proprietorship is a "business owned by an individual working alone or an individually owned business with one or more employees."⁶ The character of an individual proprietorship leaves the individual relatively free from government control and special taxation. As previously stated, the pros and cons of any business structure can only be evaluated by the individual and the specific needs at the time.

"Under a proprietorship, you remain in complete charge of all aspects of your business,"⁷ taxes on profits as well as any debts your business may develop. The profits are exclusively the proprietor's to distribute as he chooses, whether the profits are invested back into the business or disposed of in the realm of the proprietor's personal well-being or leisure. However, if the business should fail, the proprietor's personal assets including home, realty, automobile, etc., are legally subject to claims by the creditors whether the initial capital investment was provided by a bank or obtained from individual persons.⁸ The legal liability of the individual proprietor cannot be restricted in any way: this is the basic characteristic of liability, which distinguishes the proprietorship from the legal structures of the partnership and the corporation.

The initial financing of any business structure is a relatively complex matter. Difficulty in raising capital is not uncommon. Because the proprietor has only personal assets to fall back on, banks are sometimes more reluctant to lend money to proprietorships than to partnerships or corporations. The capital is available, just not as readily available. For long term and future

financing, similar difficulties may occur: obtainable funds will always be in direct subordinate relationship to the sole proprietor's personal wealth in monetary terms and in assets collectively.

Within the business enterprise, the proprietor has complete control and power in the decision-making process of the business enterprise: both day-to-day activities and in the planning and execution of future endeavors for the business. In this respect, there is an element of personal flexibility within the structure. This personal flexibility in ownership may sacrifice the business flexibility. With the owner in full control of all aspects of the business, the viewpoint and experience of the enterprise becomes rather limited. On the other hand, "the concentration of management avoids problems of opposing factions and divided responsibilities."⁹

Under certain circumstances, the life of the business under the legal structure of the individual proprietorship may become unstable. "The enterprise may be crippled or terminated upon the illness or death of the owner."¹⁰ It is well to note that the individual proprietorship is traditionally the fundamental structure of business organization. "A small businessman might very well select the sole proprietorship to begin with. Later, if the owner succeeds and feels the need, he or she can form a partnership or corporation."¹¹

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Partnership

Another legal structure within business organizations to be considered is the partnership. If two or more people desire to engage in business activities together, the partnership is the easiest and the most practical legal structure to employ.

Financially, the partnership allows for the pooling of capital and reduces the business's dependence on borrowed money.¹² If and when borrowing money becomes inevitably necessary, partners can be equally liable for the repayment of the loan.

Along with the pooling of capital and assets, the individual partners' experiences and abilities are also pooled. The varied abilities of the partners in combination often proves to be beneficial to the business enterprise as a whole. For instance, a small chemical company set up under the partnership structure has delineated the responsibilities of the partners in such a way that the partners' personal abilities complement each other perfectly; one partner handles all the research, development, and technical problems, while the other concentrates on sales and administration.¹³

Although a written agreement between partners is not required, it is advisable. This cannot be emphasized enough. For all parties involved, the written agreement can be viewed as a self-protecting and a clarifying device to avoid possible future problems and misunderstandings. Definitions of the roles

and goals of each partner should be discussed thoroughly before establishing a partnership.

A partnership does not imply equal contributions by the partners. The input of each individual and the distributions of profits can be designated in any way desirable and agreeable to the individuals involved. The details of a partnership are generally expounded upon through what is entitled as the "Articles of Partnership." "These articles outline the contribution by the partners into the business, whether material or managerial, and generally delineate the roles of the partners in the business relationship."¹⁴ The following are sample portions usually contained in partnership articles:

- name, purpose, domicile
- duration of agreement
- performance by partners
- character of partners (general or limited)
- contributions by partners
- business expenses (how handled)
- authority (individual partner authority, in conduct of business)
- separate debts
- books, records, and method of accounting
- division of profits and losses
- draws and/or salaries
- rights of continuing partner
- death of a partner (dissolution and winding up)
- employee management
- release of debts
- sale of partnership interests
- arbitration
- modifications of partnership agreements
- settlement of disputes
- required and prohibited acts
- absence and disability¹⁵

As mentioned earlier, a partnership is an agreement between two or

more persons and does not imply equal contributions. The formation of a partnership is based on agreement of a common goal, not equality; therefore extending to the parties' individual needs at the time is of the essence.

With the legal structure of a partnership being based on agreement, various "kinds of partners" emerge and begin to define themselves in rather descriptive terms. For example, the most popular form of specialization is the General Partnership. The general partner is "generally" liable, similar to the liability of the individual proprietor. Of special interest is the "limited" partner. "Assuming compliance with the statutory formalities, the limited partner risks only his agreed investment in the business."¹⁶ The limited partner, so long as he or she does not participate in the management and control of the enterprise or in the conduct of its business, is only liable for his initial investment.¹⁷ For example, the limited partner could be a company or an individual supplying only the initial capital for the financing of the business.

Disagreements and misunderstandings may occur between individuals while working closely on a day-to-day basis. With respect to a partnership, misunderstandings can be fatal. First of all, "they are highly vulnerable to personal friction and discords. Many fine relationships have been destroyed by business misunderstandings and many successful businesses have been devastated by personal conflicts."¹⁸ Aside from personal interaction between partners, the organizational element that controls the partnership is the

agreement. To protect the partners, the "Articles of Partnership" should spell out and clarify the limitations of each partner's liability on the other. "Moreover, in most states, a partnership is automatically dissolved when any of the partners sells his interest, dies, or becomes disabled. These restrictions can bring a prosperous company to a sudden standstill."¹⁹ Consequently, the ticklish partnership as a legal structure is unstable in its lifespan. If, with the passage of time, the business enterprise proves to be successful, the partners may want to incorporate to avoid such sudden and terminal circumstances to the business.

Corporation

The alternative to the individual proprietorship and the partnership is the corporation: the most complex and formal of the legal structures in business organization. A corporation is "an artificial being, invisible, intangible, and existing only in contemplation of the law."²⁰ Being defined as a separate entity, the eminently attractive feature of the corporation is what's termed the "corporate shield." Essentially, the corporate shield is "a legal device for separating your personal assets from those of your company."²¹ Creditors can collect on their claims from the corporation only within the boundaries of the company's assets which potentially can be quite extensive. Regarded as a single entity within the law, a corporation can earn profits, incur debts, own property, and sue or be sued. A corporation and a United States citizen

possess similar, almost unanimous constitutional rights. The incorporated business is responsible and liable for itself as is an individual.

In order for a business to incorporate, "subscriptions to capital stock must be taken and a tentative organization ('Articles of Incorporation') created."²² The Articles of Incorporation and the Articles of Partnership have similar roles and components in relationship to the business enterprise. Once the subscriptions and Articles of Incorporation of the prospective corporation are established, "approval must be obtained from the Secretary of State in the state in which the corporation is to be formed."²³ If approved, the information the Secretary of State returns to the prospective corporation is in the form of a charter. Upon payment of initial incorporating taxes and certain inescapable filing fees, the paternal state gives birth to a corporation.

The charter for the corporation "states the powers and limitations of the particular enterprise."²⁴ The corporation must work within the charter's limits and various laws pertaining to corporations, such as corporate taxes, mandatory annual reports, interstate commerce and trade laws, employment and other pertinent legislation. In this respect, the flexibility of the specific corporation's activities and mobility is defined by the government-issued charter, and not by the owner, contrasting with the owner's controlled flexibility of the proprietorship and the partnership. Each state in the United States has different and varying laws and fees pertaining to the incorporation of a business enterprise. Depending upon the scope and character of the business

contemplating incorporation, one state may be more favorable than another. Differences are found in the rules governing stockholder relationships, voting regulations, requirements for periodic meetings and reporting procedures.

The charter's control over the corporation can possibly limit the flexibility of the business as well as its freedom and mobility within its marketplace. The incorporating presentation to the Secretary of State must be delicately handled. The complexity of the legal procedures associated with incorporation are both time consuming and can be expensive. To the uninformed, it is advisable to engage a knowledgeable lawyer to formulate the documents and bylaws of a corporation. The lawyer's legal knowledge is important to insure the maximum flexibility, freedom and protection within a corporation's organization and charter.

Primary funding of a corporation generates from the subscriptions to capital stocks, bonds and loans. A stock subscription is "an agreement to purchase a stated number and kind of shares of stock in the corporation when the shares are issued."²⁵ Subscriptions to capital stock are administered either publicly or privately. In either case, the total number of shares of stock a corporation possesses is established in the company's charter. Once the incorporating procedures have been completed, the subscriptions are collected and the subscribers hence become stockholders in the corporation owning shares of stock.

Ownership of a corporation is not as direct in comparison to the individual proprietorship and the partnership. The number of shares of stock owned by an individual, proportionately, stipulates ownership. Unlike the legal structures of business organizations previously discussed, the owners or stockholders are liable only for their respective investment. Once a corporation is established, and the system of stocks and bonds therein assimilated, profits of the corporation may be payable to the stockholders in the form of yearly dividends. The dividends constitute profits over and above the running cost of the corporation. Dividends may or may not be voted by the Board of Directors. The directors may choose to reinvest all profits back into the business, for example.

Stockholders usually form the financial foundation upon which a corporation can function, develop and grow. However, the stockholders may not necessarily have jurisdiction over the day-to-day policy and operation of a corporation. The practicing concepts in a corporation are the results of the management. Assuming the stockholders or owners do not take active part in the management of the corporation, they run the inherent risk of impotent management of their investments. Anyone who receives some sort of payment for a specific service to the corporation, whether it be management or labor, may not be efficient, dedicated or creative unless that particular person has a specific investment in his or her endeavors. If a real concern is not inherent in the management and labor of a corporation, it is vulnerable to decay, and at worst, to death.

" . . . a corporation can raise much larger amounts of capital than the other two principal forms of business organization, the proprietorship and partnership, because it can issue either stock or bonds."²⁶

The charter denotes the total number of shares of stock a corporation can issue. During the initial financing of a corporation, not all the shares of stock need be sold. As the corporation develops and the need arises for additional capital, the stocks not subscribed to in the precorporation procedures can be sold, thus securing additional funds for the corporation.

A second alternative for additional corporate financing is the bond. A bond, in essence, is a sophisticated IOU: a loan expendible only by a corporation with the borrowed capital generally secured by the assets of the corporation. This credit instrument provides the corporation with needed funds at a significantly lower interest rate than an outright loan from a bank.

In most cases, a bond has a maturation period and in specific cases, cannot be redeemed before the expiration date. This allows the corporation to develop the borrowed capital and allows its earnings to rise.

"The relationship between the company and bondholders is that of debtor-creditors."²⁷ The bondholder is not investing in the company as is the stockholder: the bondholder is acting similarly to a bank, which is loaning capital. Therefore, if the company should fail, the stockholders lose their investment, whereas the bondholders, potentially, but not always, collect their loan.

In comparison to the proprietorship and the partnership, a corporation has a life of its own. "The withdrawal, insolvency, injury, illness or death of a person officially concerned in a corporation does not mean its finish."²⁸ The state brings a corporation into existence and the only death a corporation can encounter is bankruptcy or voluntary dissolution.

The individual proprietorship, the partnership and the corporation are the three prominent legal structures in the organization of business enterprise. Possibly, the cooperative and the joint venture are two of the many peripheral business activities feasibly interesting to the artist and the craftsman.

Cooperatives are organized identically as a corporation is with the primary difference lying in the concern and management of the enterprise. Generally, a cooperative organization is "an organization of persons who pool their resources to buy or sell more efficiently and profitably than they could individually."²⁹ Traditionally controlled democratically by its members, a cooperative exercises equal division of both labor and time.

As an extracurricular or short term business activity, the joint venture can be employed as another means of meeting a specific goal, whether it be for profit or for an organizational goal or endeavor. Specifically, the joint venture is "a business relationship similar to a partnership but formed for the purpose of carrying out a single project rather than an ongoing business."³⁰ The specific venture jointly sought does not have any actual partnership or corporate

designation. The joint venture is not a long term form of organization and generally terminates immediately following the obtainment of the initial goal or purpose of the formation.

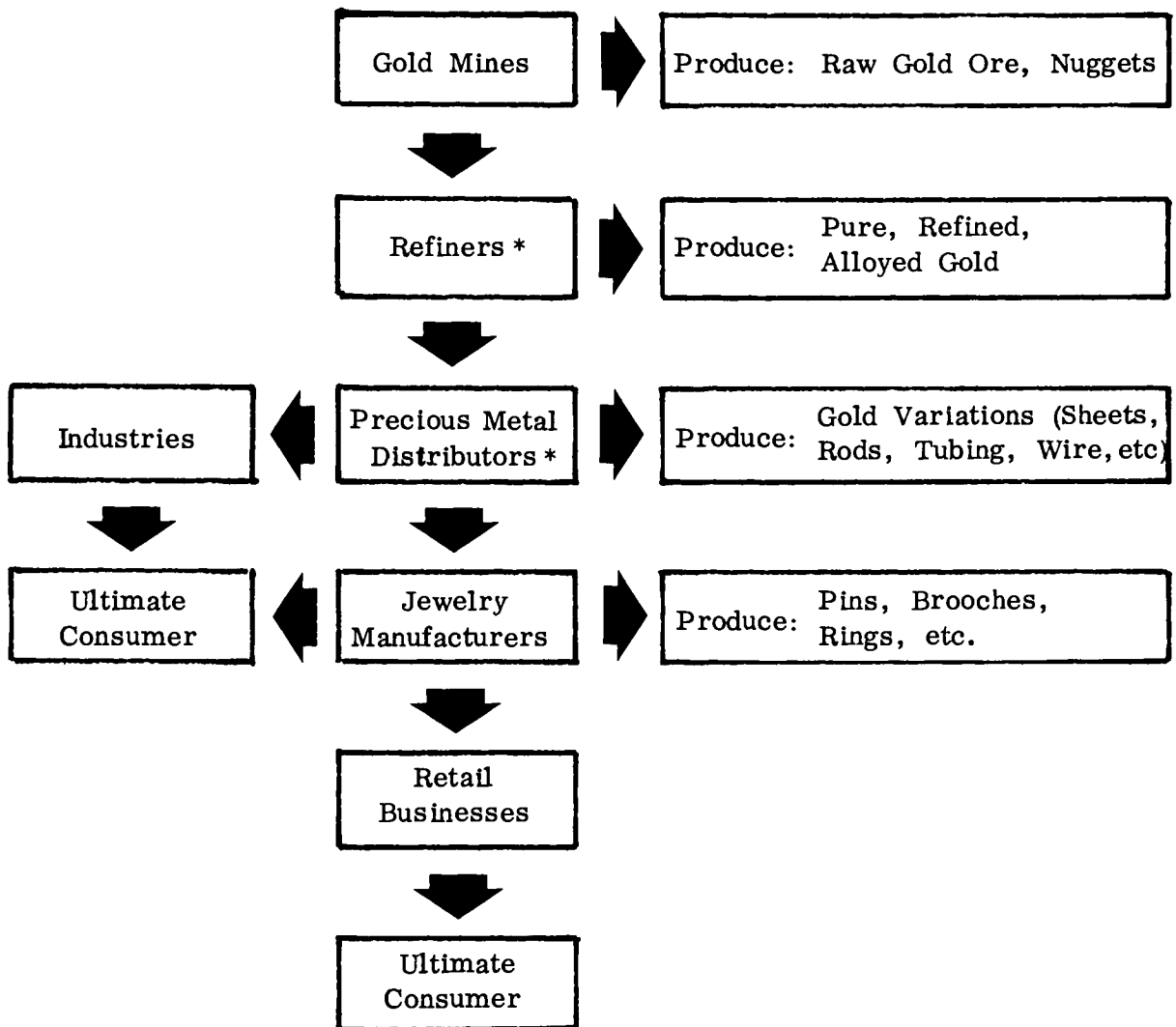
The organizational forms of businesses selling commodities to the consumer have essentially remained firm in their structures except for periodic changes due to peripheral tax revisions enforced by the law-making powers in our society and the revisions in international trade flow. These modifications usually enhance and/or restrict the mobility and freedom of the individuals within the working capitalistic system of the profit-oriented market.

It behooves the artist and craftsman, who looks forward eagerly to a lifetime career in his specialty, to familiarize oneself with the main characteristics of the various legal business structures available. As the artist matures professionally, and earnings increase, it is especially important. Each person should know enough about this subject to intelligently establish a balance with which one can live relative to personal and professional freedom as well as the business dictates that exist under the various forms of organizational patterns.

METHODS OF DISTRIBUTING PRODUCTS TO CONSUMERS

The legal structure of a business organization precisely formulates the interior "structure" of the business enterprise. A business enterprise is an organization which is engaged in the buying and selling of commodities and/or services. Theoretically, the actual existence of these organizations constitutes a need and/or demand for the items and services rendered by the business for the consumer. Assuming that all businesses generally exist out of this theoretical need and/or demand by the consumer, the method of distributing the product to the consumer is an area of investigation that is of the utmost economical importance.

Within the business realm, distribution, specifically, is "the process of conveying goods and services from the producer (manufacturer) to the marketplace. Unlike merchandising, distribution involves the physical movement of goods (transportation, traffic) but does not include advertising and selling."³¹ For example, the following chart illustrates the method of distribution to the consumer which traditionally occurs using the scarce and limited resource of gold ore.



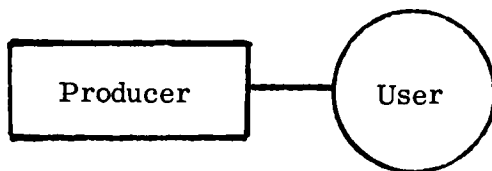
* Refiners and precious metal distributors can be collectively, one entity. This depends solely on the objective and scope of the business charter and the market distribution system of a given business.

The distribution process implies where and how the commodities are finally placed for sale. Specifically, this placement is referred to as "channels of distribution." Ultimate channels of distribution generate from the need and scope of a given business. The system and the various components that have been created by a number of societies throughout history generally begin with two intermediary agencies in the channels of distribution, namely, wholesale distribution centers and retail distribution centers. A wholesaler is "a business unit which (produces), buys, and/or (re)sells merchandise to retailers and other merchants and/or commercial users, but does not sell in significant amounts to the ultimate consumers."³² A retailer is "a merchant, or occasionally an agent, whose main business is selling to the ultimate consumer."³³ Both wholesale and retail distribution centers exist throughout the market systems whether it is gold ore one begins with, or other basic items that ultimately become commodities or services for the consumer.

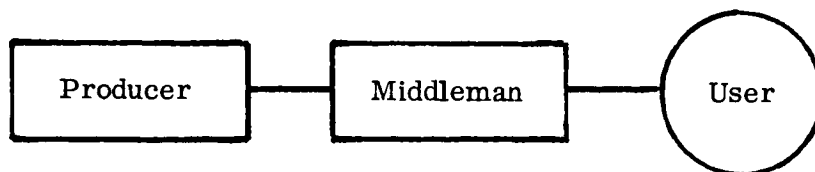
The distribution patterns of any commodity remain similar in structure while conforming to the needs and goals of the business and its management. When the realities of the marketplace are defined by the artist and craftsman, channels of distribution can be devised to minimize the inherent overhead costs of the business.

The following chart portrays three basic distribution channels that are available:

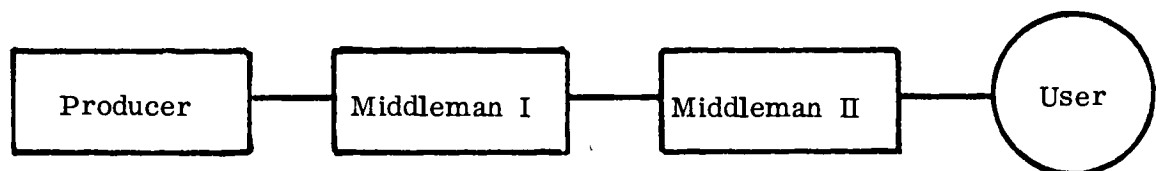
DIRECT DISTRIBUTION CHANNEL:



SINGLE MIDDLEMAN CHANNEL:



MULTI-MIDDLEMAN CHANNEL:



The traditional distributional methods are well defined and fairly orderly. Whether we like it or not, and unlike other commodities, craft and art pieces are labeled "frivolous" or "investments" as marketplace items. Therefore, they necessarily deserve particular attention when the artist and craftsman considers the basic paths and methods to be used for placing the articles before the final customer in the marketplace.

Direct Distribution

"In direct distribution, the producer sells directly to ultimate users by mail or through his own sales force."³⁵ This is the straightest path to the consumer. Direct distribution is easily visible if the artist and craftsman has a storefront or a retail outlet. Production does not necessarily need to be executed on the premises, but can be a point of concentration.

Direct distribution from the artist and/or craftsman can sometimes be handled by the person actually being located in retail outlets, department stores, gift shops and the like. Exclusive design rights sold directly to manufacturers or sales made directly at exhibits and galleries are other forms of direct selling.

Aside from the above, another method of direct distribution is direct mail marketing. "The key in direct mail is the mailing list. Experienced direct mail marketers know that their single greatest asset is their mailing list."³⁶ The mailing list of the artist and craftsman generally consists of previous customers, names gathered from related periodicals, directories, newspapers, etc. Periodically, the mailing list needs updating and revision as is necessary with most any system of organization or marketing: spring cleaning, if you will.

"Unlike display advertising, direct mail marketing allows you to provide much more information about your products to the reader. While direct

mail has its scientific aspects, it also has the advantage of being applicable on a small scale."³⁷ Brochures and pamphlets permit the artist and craftsman to update their former and prospective customers on their products, thoughts, and developments.

Resembling direct mail marketing in scope, but generally not in content is the catalog form of direct distribution. Many artists, craftsmen and organizations utilize this type of retail and/or wholesale catalog technique as their distribution channel. Catalogs are commonly used in two types of situations:

1. Production centers, needing volume and able to produce in quantity, are most likely to benefit and are most often involved.
2. The other direction, used rarely, has possibilities. Exclusive, expensive works of art, made to order or priced to cover limited volume, can be successfully sold in catalogs. This is the elegant approach, appealing only to the limited market that can afford to respond.³⁸

The catalog, like the direct mailing list, eliminates overhead costs and allows the artist and craftsman to concentrate on a particular market and control that exposure to the market, which could be fairly important.

The last and most important direct distribution channel is by word of mouth. Pieces of work generally sold through this direct channel of distribution assist the craftsman with work exposure and name recognition. A satisfied customer will not only return, but is more than likely going to pass on favorable recommendations pertaining to the product and the artist and/or craftsman who produced the product. What better advertising than from a satisfied customer?

This, in itself, can complement other channels of distribution unique to the individual's situation.

Single Middleman Channel

"After the direct channel, the single middleman channel is the shortest and simplest; the middleman may be either a wholesaler or a retailer."³⁹ When the craftsman sells commodities to a distributor or middleman, it must be realized that a price hike is being encouraged in this product before it reaches the consumer, or the artist must accept a lower profit margin for the labor involved. The more steps to the distribution pattern, the more expensive the product will be when it is finally positioned for eventual consumption: unless, as an offset, the unit cost of the product can be minimized, produced efficiently and in quantity.

Innumerable retail store outlets do not manufacture the items which they sell. The retail outlets must obtain the items from wholesale distributors or the manufacturers themselves. The artists and craftsmen who adopt the retail enterprise as a middleman channel generally employ the consignment agreement with the retail outlet.

Consignment is defined as the act or process of giving over to another's care. In essence, the artist and craftsman is employing the retail enterprise as a salesman. This service as well as any service, is not free. "Few retailers are out to do you any favors and they must show a reasonable profit

or return on their investment. But you are also in business and must look practically and pragmatically at any venture."⁴⁰

There are multitudinous means in which retail enterprises effectuate their profits on items placed with them on the consignment arrangement. The most popular among artists and craftsmen is the commission agreement: a percentage of the money received in a transaction paid to the agent responsible for the business. Generally, the percentage or fee to be paid to the retail enterprise is negotiable. It is always advisable to control the selling price of an item, if possible. The artist/craftsman should always know the competitive environment and be able to maneuver accordingly.

Some artists and craftsmen collaborate with agents: one who acts for or in the place of another by authority from him, as a representative.

Agents perform a function similar to that of wholesalers, but in marketing a product, they usually do not take title to the goods they sell. The agent is a commission salesperson who contacts retailers or other clients to obtain orders for products which the craftsperson then fills.

Here, again, the percentage or fee to be paid to the agent is always negotiable and should be under the control of the artist/craftsman.

An agent may be a specific person or an enterprise in itself. For example, an art and/or craft gallery may act in an agent capacity for the products of artists and craftsmen. Gallery commissions are customarily very

high. The high commission percentage is usually justified on the basis that the gallery is an established enterprise in itself and usually has a broad reputation that attracts a special type of client. The overhead costs of a gallery are extensive, and it raises the commission percentage to these high levels.

Multi-middleman Channel

The multi-middleman channel of distribution is obviously the most complex method of distributing commodities to the ultimate consumer. This channel "is generally considered the most representative of distribution channels in the United States, and the majority of products for consumer use flow through the multi-middleman route."⁴²

Using the multi-middleman channel for distribution, it would be somewhat safe to conclude that a wholesaler must be present in this process. Within the art and craft realm of distribution, there are two prime varieties of wholesalers: stocking and non-stocking.

The stocking wholesaler buys for his own account — that is, he takes title to and possession of the goods, and then marks them up for sale to retailers. The non-stocking wholesaler may or may not take title to the goods, but in all cases he asks that the product be "drop-shipped" (shipped directly to the retailer) by the manufacturer.⁴³

If the criteria for shipping is an element involved in dealing with a wholesaler, a point of consideration is the cost of preparing for shipment and

the cost of insuring the shipping of the products. These costs obviously should be included in the selling price to the wholesaler.

The percentage in "commission" with the stocking wholesaler versus the non-stocking wholesaler, is slightly higher due to the cost of carrying the inventory. What the artist and craftsman receive from both the non-stocking wholesaler and the stocking wholesaler, essentially, is the sales force and possibly a broad and well advertised exposure.

" . . . wholesalers often participate in seasonal trade shows, purchasing their own booth or exhibit space, and again acting as a representative of the manufacturers who have contracted with them for distribution services." ⁴⁴

Whether the wholesaler is stocking or non-stocking, he distributes through his own channels and methods to retailers and/or other wholesalers.

The artist and craftsman, as manufacturers of particular saleable items, have a variety of channels and combinations of those channels with which to work.

"The producer does not necessarily choose a single channel of distribution for his products. He not only may use different channels for different products, but also may use different channels for the same product in different markets." ⁴⁵

In the art and craft field of commodities, the craftsman is, in most cases, the manufacturer and designer of a product. The factors and

consequent differences evolve and are motivated by the personal needs and goals of the individual craftsmen. However, the imagination of the producer is a most important and significant factor in determining the exact pattern of efficient distribution. The artist's personal needs and goals, coupled with the existing and obvious channels of distribution, may, in fact, create alternate methods of distribution unique to the individual craftsman.

In order to efficiently and economically survive in the marketplace, the artist/craftsman, like the manufacturer, must continually review and adjust to the ever-changing market.

Distribution, like other business functions, is constantly changing to meet the challenges presented by a changing political, economic and social world. Not every company will make equal progress in adopting its operations to these changes. But all will spend a lot of time trying. Some will fail and disappear. Others will succeed and be stronger for it because, like good halfbacks, they are able to change direction rapidly, and with little notice. The outcome for our economy will be (a) stronger, more effective, and less costly distribution network.⁴⁶

Continuous planning, re-evaluation and projective marketing work is essential for insuring present and future success with business endeavors and activities. The quality of this work and the attention by the craftsman to the market environment, can decide success or failure. It cannot be ignored for long.

Distinctly different from business organization and methods of distribution considered previously, is the area of market segmentation.

Essential in business market and product management is the thorough knowledge and understanding of market segmentation and its implications concerning the business entrepreneur.

MARKET ANALYSIS

Historically, the business enterprise was created out of a need and/or demand by the general public for items and/or services the public could not feasibly supply for themselves. Based on the public's need for an item, the only faithful and honest purpose for entering the business realm is to satisfy the public need. This need of the general public constitutes, for the business enterprise, a market.

"In a generic sense, it is simple to define a market as a group of people who share a common benefit in fulfillment of this need."⁴⁷ For example, our society has developed to such a degree that for individuals to supply all their own foodstuff is utterly impossible. Therefore, foodstuff is a need and unavoidably, a market. The group of people who share this common need welcome the benefits in fulfilling this need which the business enterprise supplies.

"By virtue of the common need it shares, a market is homogeneous. Yet no market is homogeneous in its acceptance of the same product or service benefit for its common need."⁴⁸ Continuing with the foodstuff example, not all people enjoy Chinese, natural health, processed, convenient and/or prepared foodstuffs. Furthermore, not all people who need foodstuffs indulge in or enjoy

the consumption of the Chinese cuisine. Each subdivision of a homogeneous market is dictated by the varying individual priorities, values, and concerns of the group of people who share a particular common need.

"Each of these specific need-oriented groups represent a segment of the larger group,"⁴⁹ and must be labeled accordingly.

Each label defines a market segment: a small homogeneous "markette" characterized by its single set of dominant needs. These needs not only characterize the market segment; at the same time, they isolate it from all other segments. They individualize it, endow it with its own personality, and testify to the segment's unity of demand which insists that its unique personal values be served.⁵⁰

If success in fulfilling the public needs is to be experienced by the business enterprise in marketing a product and/or a service, the needs of the people and their behavior must be defined and segmented in order to approach and serve the public efficiently and economically.

Defining Market Concentration - Segmentation

Segmentation by a marketer represents recognition of his total market's demand for individual choice. This means that he sees net markets, or segments, as groups of people mobilized together on the basis of their congruent need perceptions — that is, their insistence on seeing themselves as possessing harmonious needs. Just as their need perceptions are in agreement, so is their acceptance of a way to benefit them. For this reason, a market segment may be defined as a group of needers whose predictable reactions to a product or service benefit will be similar: they will either accept it or reject it en bloc. This aspect of predictability does not — and by definition, cannot — apply to any gross market. But it is an essential quality of net market segments without exception.⁵¹

Each variation of a common need and choice constitutes a market segment. The user value which distinguishes each market segment signifies the innumerable variations of the needs and the degree of those needs. For example, a potter may manufacture two lines of tableware: stoneware and porcelain. The value and implications the individual consumer places on the stoneware and the porcelain, will determine which item the consumer will purchase.

The recognition of market segmentation, and more specifically value segmentation, signifies the commencement of marketing wisdom for the producer and is particularly important to the artist and craftsman.

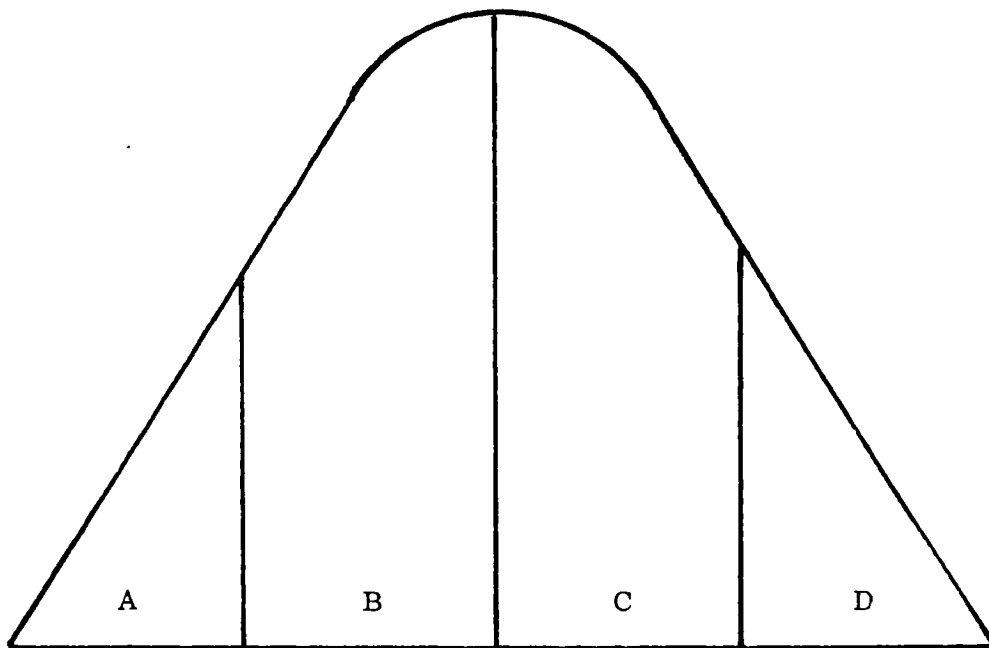
A three-step segmentation process aids in assisting the business person in acutely distinguishing his prospective market's needs and the benefits the consumer reaps from his commodities. This process can be approached by a sequence of deductions.

First, he segments a gross market according to its needs; second, he segments each group of "needers" according to the benefits they prefer for fulfilling their needs; and third, he isolates the segment's core of heavy users according to the key demographic and environmental factors which act as modifiers of their needs, and therefore influence the type of benefits they prefer.⁵²

Resulting from the exercise of such deductions is a net market, or a market segment. No matter what the prospective marketable product is, this three-step segmentation process can be applied. This will enable the marketer to intelligently evaluate the public's (consumer's) needs and the feasible benefits

of those needs. In this sense, the marketer is basing his findings on the inclusive desires, wants, and preferences of the public itself. These are the very same variables which the public itself uses to judge the commodities at hand. "Need-oriented market profiling insures that a business will always be market-oriented — that is, that it will always proceed from the needs to the benefits that will satisfy them and then proceed to products and services which will deliver the benefits."⁵³

Derived from personal interviews and observations, coupled with information supplied by the American Crafts Council, the following chart exemplifies the primary step in the process of the art and craft design segmentation. (The design segmentation versus need segmentation of the art and craft community is utilized in this chart to exemplify the inexhaustible diversity within the market. The actual segmentation process needs to be executed by the individual craftsmen and artists in accordance to their own personal needs, goals and preferences.)



Segmentation of people according to their need for a particular type of art and craft object.

A = Originally designed, one-of-a-kind or limited editions of pieces.

B = Originally designed prototypes executed specifically for industry.

C = Originally designed or from another's design concept production pieces.

D = Pieces executed from designs of another's concept or time mode.

Segments A, B, C and D are homogeneous in the public's need for art and craft commodities, yet each segment signifies a variation of the homogeneous need. Each variation of the public's need for art and craft objects individualizes and isolates a segment: setting it apart from the other segments of the homogeneous common need of the public for art and craft commodities.

The business enterprise that accepts the need-oriented market as its sole purpose and reason for engaging in business activities is ordained to investigate the needs of the public and the benefits that the public is willing to accept for those needs. This investigation enhances market wisdom and aids in developing direct routes in presenting the commodities to the marketplace and eventually to the consumer.

Customer Needs and Benefits

Many market planners have found it more practical to classify basic market needs into four general categories: the economies, by which something beneficial is felt to be saved from expenditure or loss; the identities, by which something beneficial is identified with and felt belonged to; the prestiges, by which something beneficial is felt to be awarded or bestowed; and the vanities, by which something beneficial is felt to be displayed.⁵⁴

Each basic category reaps its own benefits or variations thereof correlating to the innumerable variations of individual human psychological needs, preferences and values. Because of the inexhaustible variations of the complex needs of individuals, various combinations of needs yield various benefits. This is all in accordance to the individual's values, concerns and preferences.

The following outline illustrates that most needs fall into one of the four basic categories. The last column in each of the following charts identifies those customer needs to which the artist and craftsman should be particularly sensitive. These are the general needs that categorize and segment their specific customers from the larger homogeneous market.

THE FOUR BASIC MARKET/CUSTOMER NEEDS TO BE SERVED

I. THE ECONOMIES

<u>Need to Economize on</u>	<u>By Means of the Benefits of</u>	<u>Artist/Craftsman Sensitive</u>
A. MONEY	1. Thrift 2. Savings 3. Frugality	- Savings
B. TIME AND EFFORT	1. Convenience 2. Comfort 3. Ease 4. Leisure	- Leisure
C. TASTE	1. Modesty 2. Simplicity 3. Temperance	

II. THE IDENTITIES

<u>Need to Identify with</u>	<u>By Means of the Benefits of</u>	<u>Artist/Craftsman Sensitive</u>
A. VENTURESOMENESS	1. Novelty and Variety 2. Innovation 3. Modernity 4. Futurity 5. Change 6. Youth 7. Casualness 8. Energy and Aggression 9. Leadership 10. Impulse and Freedom 11. Choice and Independence 12. Caprice 13. Sensualism 14. Pleasure 15. Entertainment 16. Enjoyment 17. Gratification 18. Refreshment	- Novelty and Variety - Innovation - Modernity - Leadership - Choice and Independence - Sensualism - Pleasure - Enjoyment - Gratification
B. CONSERVATISM	1. Safety 2. Tradition 3. Peace 4. Security 5. Reliability and Dependability 6. Certainty 7. Permanence 8. Continuity 9. Stability 10. Moderation	- Safety - Tradition - Security - Stability

III. THE PRESTIGES

<u>Need to Be Awarded a Sense of</u>	<u>By Means of the Benefits of</u>	<u>Artist/Craftsman Sensitive</u>
A. INCLUSIVENESS	1. Affiliation and Association 2. Friendship 3. Love, Help, and Guidance 4. Sociality 5. Acceptance 6. Participation 7. Belonging 8. Togetherness and Organization 9. Permissiveness 10. Uniformity, Cleanliness and Neatness 11. Similarity and Sympathy 12. Equality 13. Conformity 14. Dependence 15. Tradition	- Affiliation and Association - Sociality - Acceptance - Belonging - Tradition
B. EXCLUSIVENESS	1. Individuality and Exhibition 2. Uniqueness and Self-Dramatization 3. Difference and Distinction 4. Speciality 5. Secrecy 6. Privilege 7. Independence	- Individuality and Exhibition - Uniqueness and Self-Dramatization - Difference and Distinction

IV. THE VANITIES

<u>Need to Display</u>	<u>By Means of the Benefits of</u>	<u>Artist/Craftsman Sensitive</u>
A. TANGIBLE VANITIES	<ol style="list-style-type: none">1. Achievement and Accomplishment2. Skill and Proficiency3. Health and Well-Being4. Wealth and Prosperity5. Profit6. Affluence7. Authority and Power8. Status, Respect and Prestige9. Strength and Vigor10. Acquisition and Possession11. Success12. Approval13. Beauty and Fashion14. Ornament and Ostentation15. Knowledge and Intelligence16. Wit17. Wisdom18. Style and Flair19. Luxury	<ul style="list-style-type: none">- Achievement and Accomplishment- Health and Well-Being- Wealth and Prosperity- Affluence- Authority and Power- Status, Respect and Prestige- Acquisition and Possession- Success- Approval- Beauty and Fashion- Ornament and Ostentation- Style and Flair- Luxury
B. INTANGIBLE VANITIES	<ol style="list-style-type: none">1. Repute2. Influence and Control3. Taste4. Pride5. Virtue6. Humility	<ul style="list-style-type: none">- Repute- Influence and Control- Taste- Pride

As previously mentioned, most businesses serve one or more of the basic needs, but generally speaking, the public's demands are expressed in combinations of the basic needs. These combinations of needs "act in unison to define the nature of the segment's demand." ⁵⁶ Understanding the segment's character or nature allows the artist/craftsman to address himself to the segment's integrated needs, coupled with the segment's individual demands.

The needs of the public have a direct subordinate relationship to the benefits reaped by the public. In reference to art and craft commodities, favorable benefits may not necessarily be readily visible or definable by the public. Without expounding on a personal 'ego trip' of the artist and/or craftsman, benefits from the products the artist and/or craftsman manufacture must be defined and nurtured by the individual manufacturers in order to present the product, and the benefits to be reaped from the product, to the public. Segmentation obviously helps focus this process down to a manageable reality.

One of the most obvious benefits the artist and/or craftsman offers the consumer is individuality. Although the artist and/or craftsman may mass produce an item, the original design concept and/or 'hand-crafted' appearance segments the product from the homogeneous market. If a public segment values the hand-crafted aspect of the product, individuality may be one of the many benefits the consumer obtains from that need.

Allocating time and energy for segmenting a homogeneous market allows a business enterprise to:

- 1) define the truly profitable sources of his total business income and to concentrate his attention on them.
- 2) innovate new products to meet specific, provable market needs, thus lowering his trial-and-error cost of taking unmarketable products to market - or taking marketable products to the wrong market segment. By the same token, it allows him to plan the lowest-cost product and promotional renovation of existing products where such marginal investments will suffice.
- 3) perceive the first early-warning signs of change in his market requirements and to tool up in time to take advantage of them, or at least in time to avoid being taken advantage of.
- 4) define his competition with a new exactitude and to define his business as his market defines it also: according to the needs whose fulfillment it demands and the benefits he supplies.⁵⁷

The knowledge and expertise derived from the market segmentation process enables the business enterprise to intelligently and profitably place the commodities in the hands of the ultimate consumer.

Market Modifiers

Consumer behavior in purchasing commodities is extremely complex. Akin to the basic needs of the consumer is the individual behavior associated with various positions that one occupies in a society. The societal roles, social forces and their implications highlight the basic needs and act as need modifiers. The societal attitudes and knowledge relative to the specific roles individuals

occupy in society may potentially alter the need modifiers.

Segmentation, consumer needs and need modifiers are a significant and a complex group of activities for a business person to evaluate and deal with successfully in marketing individual products. These complex groups of activities overlap and have substantial bearing on one another, but can partially be bisected into two general groups:

first, the demographically related modifiers which include age, race and ethnic background, religious and moral persuasions, marital status, educational background, socio-economic status and occupation; second, the environmentally related modifiers which include psychological environmental factors and geographical environmental factors affecting a needer's life style.⁵⁸

Individual artists and/or craftsmen considering each of the demographically related modifiers as well as the environmentally related modifiers may indeed identify a need segment in their particular marketplace where there exists no product for that need segment. A need segment with no apparent product yields initially a non-competitive market segment.

Yet another type of modifier equally beneficial to the artist and craftsman is the overall market modifier which addresses itself to human motivation. Focusing his/her attention on this type of overall market modifier approach to human motivation is of utmost importance when one considers how and when to approach prospective customers.

Abraham Moslow, the foremost spokesman of the humanistic

psychologies best known for his work with motivation, has provided insights into the normal, healthy personality. He postulates a concept of human motivation levels which the artist and/or craftsman should be aware of before approaching potential customers. If one can recognize their starting point in Maslow's hierarchy of human needs and take it into consideration when approaching individual customers, one will achieve more substantial sales in a more efficient and direct manner. Not only will one achieve sales, but knowing specifically the needs of the customer will further enable the artist/craftsman to fulfill and satisfy those needs more directly.

Maslow describes basic human needs into categories which are arranged in order of priority and predominance. He defines a need as a feeling which, if left unsatisfied, produces anxiety and tension . . . yet if satisfied, imparts a sensation of well being.

Man, as a wanting animal, directs his attention to a need only after prior satisfaction of another more important and more powerful need, lower on the ladder of human needs. By applying this line of logic, one can understand and focus in on individuals that have that prerequisite need for your product at a particular time in their life.

The chart and descriptions that follow briefly describe the sequential order of human needs. As the artist/craftsman reads through each one, it is advisable to make notes relative to when individuals are ready for one's particular product. A review will help reveal where the artist/craftsman's priorities lie and where their marketing efforts should start.

MASLOW'S HIERARCHY OF HUMAN NEEDS

Civilized, Mature,
Intellectual Needs

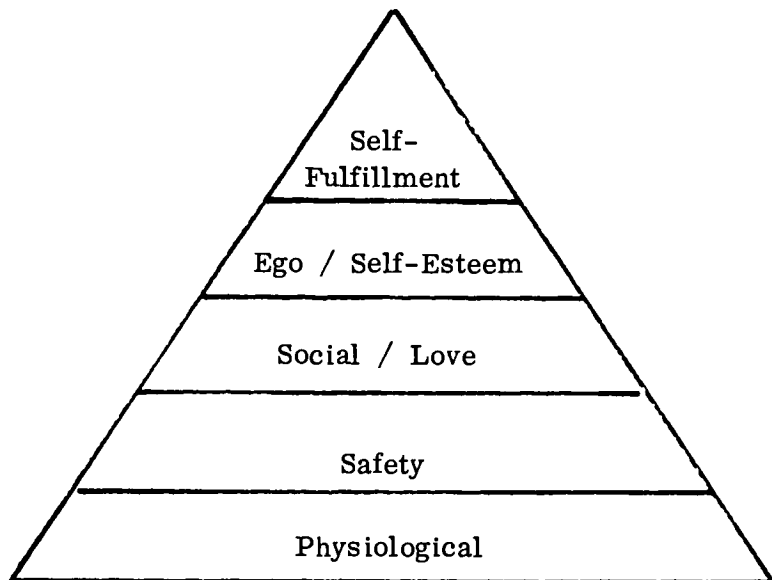


To

Primitive,
Immature, Universal
and Physical Needs



From



At the lowest level in the hierarchy of needs are biological and physiological needs to sustain life. Hunger, thirst and the need for air are examples. When man is radically deprived of food, liquid or air, the unsatisfied need actually determines behavior — he can think of nothing else until the need is satisfied.

Closely following in the hierarchy are the safety needs, both physical and psychological. Severe threats to physical safety command undivided attention, motivate behavior, until removed.

Similarly, an outright threat to the particular concept or image a person has of himself will motivate him to try to remove the threat — to try to

establish his psychological safety.

The more the fundamental physiological and safety needs become satisfied, the more the social needs tend to become motivators of behavior with regards to purchasing art and craft items.

Social needs include the need to associate with others and to gain their acceptance. Familiar words in this connection describe the need for a sense of belonging and the need for both giving and receiving spontaneous, nonreward-seeking friendship and love. It is at this point that items in our possession become increasingly important to us because they can begin modifying our needs.

Closely coupled with the need for acceptance by others is the need for establishing a firmly based, logical, reasonable and deserved high evaluation of one's self. Self-respect, self-esteem and the esteem of others — as distinguished from their acceptance — are examples. Included are the needs to achieve strength, adequacy, mastery over skills, high competence and independence as well as the needs for earned and deserved prestige, status, recognition and appreciation.

Finally, at the top of the hierarchy, only to the extent the other needs have been more or less satisfied, are the needs for reaching to fulfill all of the many potentialities uniquely conceived in each individual. Especially at this stage of human progress can one comfortably entertain the possession of beauty and value. It is with people that have developed to this point that the artist and

craftsman should have the most to do with. This is his most rewarding market from a business standpoint.

The concept of a hierarchy of needs — hierarchy in the sense of the rough order in which most people generally strive for their satisfaction — affords a more intelligent orientation to market analysis than just starting from anywhere. It gives guidance to the organization and priority of the customer's life cycle objectives.

Perhaps Maslow's concepts are the most publicized models of motivation behavior we have today, but at the same time, it appears from observation that they are also fairly accurate and simple to understand. However, they are guides which each artist and craftsman must apply in his own way and with balanced judgment. For example, Maslow did not ever mean to imply that every need has to receive complete satisfaction before we can turn our attention to higher needs. He rather believed that some minimal degree of satisfaction is required before a need ceases to concern the individual to the exclusion of higher needs. Once that point is reached, an individual will feel free to sense the tension associated with the higher needs in the hierarchy and to experiment with a new set of behaviors and plans to satisfy the new need. This emphasizes that the subject modifiers must be evaluated on an individual customer basis and the artisan must develop his sales focus accordingly.

BUSINESS CONTROL

One of the most important activities that the management of a business enterprise can engage in is that of business planning. It applies not only to the big corporate entities, but to the smallest sole proprietor. It is perhaps more important for the small business because it lacks the leverage and the flexibility of a large one. The big corporation can make a mistake or two and it goes unnoticed. They can easily be covered up. However, one or two mistakes with a sole proprietor can wipe out his business overnight.

Each business must find a meaningful method of documenting the plans and goals for the business, both short and long range. Each goal covers some important aspect of the business and lays out the prescribed future course of action. Decisions are thought out and judged early before the need is critical and forced under pressure. Important transitional events are evaluated and engineered carefully in order to avoid a future disruption and minimize dislocation of effort. To keep all the plans and goals in one's head is just not practical or fruitful. Formats and techniques which serve the individual and unique needs of the business and their proprietors are imperative for business success today. Furthermore, to support the business plans, the management must have access to accounting and control systems, which can periodically define the status of each goal and plan.

The next section will illustrate a type of business planning documentation that has been used by a craftsman over the last few years. The section following will deal with a method of accounting for the financial activities of a small goldsmith business. From both of these presentations, one can tailor and devise formats and techniques which would apply to most artist/craftsman enterprises.

Business Planning

Business planning may be described as a forward-looking appraisal of the business aspects of an enterprise, leading to decisions regarding the most effective course to be taken over a future period. Its fundamental objectives are to place the business in a sound financial condition and to serve the needs of the marketplace, both for the immediate future and over the long run.

Business planning and financial planning are interdependent at every stage. A forecast of sales, for example, cannot be made without reference to productive capacity, whereas production cannot be planned ahead without a reliable forecast of sales. But both sales and production must be planned in the light of the financial consequences, whereas production and sales plans will determine the working and fixed capital requirements of the business. Thus, the management may decide that a profitable expansion of sales can be effected provided productive capacity is first enlarged and modernized, but this will call for a large outlay of cash that could not be raised on satisfactory terms until

some future period. Therefore, the expansion program may be deferred for purely financial reasons. For example, with the prices of silver and gold going up by leaps and bounds, a goldsmith might not have the capital to plan an expansion of his business at this time.

Because of the interdependence of business goals and the many aspects of running a business, the sole proprietor or corporation cannot logically make progress or know where they are at by committing their plans and goals to memory. Each business must in its own way develop a unique format for recording each goal and the plans of action necessary to accomplish each mission. Measuring progress against schedules is simply impossible to do efficiently without documentation.

The following three goal documents typify the essence of business planning. Each states a business goal in specific terms. The overall goal is then supported by very definitive plans to act according to a timetable.

Date July 20, 1980

CATEGORY

By

B-1

BUSINESS CAREER
PHYSICAL FACILITIES

GOAL

Establish an operating studio shop which will contain all the necessary physical and process facilities necessary to fabricate, finish and repair jewelry creations of all types. Strive for maximum operational integration and flexibility in order to facilitate and minimize the time required to make physical changes.

SCHEDULE

PLANS OF ACTION

- | | | |
|----|-------------|---|
| 1. | 8/14/80 | 1. Make a bench for casting machine |
| 2. | 8/07/80 | 2. Make a rock maple workbench top |
| 3. | 9/01/80 | 3. Construct a portable tool chest for location on workbench |
| 4. | 9/01/80 | 4. Make bench for vulcanizer and wax injector (380) |
| 5. | 1981 | 5. Purchase electronic balance (900) |
| 6. | ASAP - 1981 | 6. Purchase a rolling mill (300) |
| 7. | ASAP - 1981 | 7. Purchase a buffing machine (795) |
| 8. | ASAP - 1981 | 8. Purchase a set of hart burs (180) |
| 9. | April 1982 | 9. Purchase a safe or depository for precious metals, gems, and client work |

Date July 21, 1980

CATEGORY

By

B-5	BUSINESS CAREER SALES VOLUME
-----	---------------------------------

GOAL

Implement plans and programs that together will help generate the desired sales volume listed.

SCHEDULE

PLANS OF ACTION

1. Establish a meaningful relationship with the most prestigious jewelers in the communities where product penetration is desired. Use these as referral sources.

a) 9/18/80	a) Elmira-Corning-Ithaca (4)
b) 9/20/80	b) Rochester-Syracuse (6)
c) 10/22/80	c) Washington, DC (3)
d) 5/11/81	d) Liberty-Monticello, NY (4)
e) 2/23/81	e) Boston (5)

2. Use the client referral jewelers for sources of repair work for the initial startup period (1980 - 1983)

Repair sales: 1980 - \$ 1,000	1982 - \$19,800
1981 - \$17,800	1983 - \$10,300

3. Attain the following short range sales forecast of custom built pieces:

(25 yrs) 1980 - \$ 2,000	(28 yrs) 1983 - \$35,200
(26 yrs) 1981 - \$ 9,900	(29 yrs) 1984 - \$35,200
(27 yrs) 1982 - \$17,500	(30 yrs) 1985 - \$36,000

4. Attain the following long range forecast of custom built creations:

(35 yrs) 1990 - \$45,000	(45 yrs) 2000 - \$100,000
(40 yrs) 1995 - \$80,000	(50 yrs) 2005 - \$150,000

Date July 20, 1980

CATEGORY

By

B-3

BUSINESS CAREER
WORKLOAD DISTRIBUTION

GOAL

Establish a balanced workload plan that will provide daily production of jewelry for inventory as well as for clients. Structure daily available hours as to allow for reasonable amounts of time for social, recreational and professional development.

SCHEDULE

PLANS OF ACTION

- | | | | |
|----|-------------------------------|----|--|
| 1. | 6 hours/day
Aug-Jan 1981 | 1. | Establish a broad inventory of jewelry pieces for display at shows and to serve also as guides and illustrative sales tools for clients. Produce three pieces per month (August - January 1981) working six hours per day. |
| | 3 hours/day
after Jan 1981 | | Thereafter, use whatever time up to three hours per day to maintain a reasonable inventory level. |
| 2. | 4 hours/day
Aug-Jan 1981 | 2. | Through a planned program of jeweler contacts and word of mouth promotion, establish a repair business which initially will provide a revenue base required for my personal subsistence, inventory costs and a positive cash flow. Assign four hours per day for the first six months (August - January 1981). |
| 3. | 2 hours/day
(continuous) | 3. | By means of a planned program of direct solicitation and promotional activity, maintain a persistent exposure to the market as to allow a constant input to work. Allow an average of two hours per day for this element of work. |

Regardless of the great importance of having the artist and craftsman satisfy his own personal sense of professionalism, along with satisfying the need of the marketplace, he or she must necessarily earn a satisfactory living to sustain goals in life. Good business planning dictates that all our goals and efforts must be integrated in financial terms. This establishes for the proprietor or the corporation, the feasibility of goals and plans. A typical method of documenting the quantitative possibilities of one's intentions is by the use of a cash flow analysis. This type of analysis is the most effective tool to aid planning for the cash requirements and resources of a business. As each plan is quantified and integrated with all the others of the business, the cash flow analysis shows the balance between receipts and capital and operating cash requirements. Sales, production, pricing, financing and other business policies should be initially re-examined in the light of the cash flow analysis, and modified if the analysis indicates this to be desirable.

The following illustration shows a five year projection of cash receipts and expenditures for a goldsmith business. The bottom lines show the yearly cash balance and the cumulative results of this manager's business plans.

CASH FLOW SUMMARY

<u>CASH FLOW SUMMARY</u>	<u>YEAR AND AGE</u>				
	1981	1982	1983	1984	1985
	<u>26 Years</u>	<u>27 Years</u>	<u>28 Years</u>	<u>29 Years</u>	<u>30 Years</u>
<u>INCOME</u>					
Repair/Service	17,600	19,800	10,300	10,300	10,300
Custom Production	9,900	17,500	35,200	35,200	36,000
One-of-a-Kind	1,600	1,800	2,700	2,800	3,000
Rental Income	<u>6,000</u>	<u>6,200</u>	<u>6,200</u>	<u>6,500</u>	<u>6,500</u>
Total Revenues	<u>35,100</u>	<u>45,300</u>	<u>54,400</u>	<u>54,800</u>	<u>55,800</u>
<u>COSTS AND EXPENSES</u>					
Health Maintenance	1,300	1,410	1,510	1,630	1,700
Business Related	16,500	14,020	22,420	14,670	15,470
Housing	11,800	12,800	12,800	12,800	12,800
Avocations/Vacations	1,000	1,200	1,400	1,600	1,800
Taxes	5,000	7,000	8,500	8,800	9,000
Contingencies - 10%	<u>3,500</u>	<u>3,600</u>	<u>4,600</u>	<u>4,000</u>	<u>4,000</u>
Total Costs/Expenses	<u>39,120</u>	<u>40,030</u>	<u>51,230</u>	<u>43,500</u>	<u>44,770</u>
<u>CASH FLOW</u>					
Yearly	(4,020)	5,270	3,170	11,300	11,030
Accumulative	(4,020)	1,250	4,420	15,720	26,750

Sound business planning must be kept current. It is not enough merely to formulate a good business plan. The application of the plan will call for constant revisions, both of goals and measures, as circumstances dictate. The complexity and uncertainty of doing business for the artist/craftsman requires that business planning be adaptable not only to a given level of operations, but to unexpected developments that will arise from time to time. Changing customer demands, changes in material costs, and the effect of overhead costs upon working capital requires continuous revision of plans and schedules. Alternative plans must be formulated so that, in the event unforeseen factors affect the anticipated level of operations, the business will not be faced with an emergency for which it is not prepared.

Cost and Profitability Control

Perhaps the most neglected and inadequate aspect of the American business operation is and has been their inability to know what their respective products cost to make. And if this is a problem, then obviously, determining the direct profit becomes an unknown also. This observation is not only true in large corporations, but especially prevalent in small business enterprises. Establishing a consistent method of recording each element of cost that goes into a product is essential if one is to manage and control the performance of a business operation. Without this basic discipline to guide business decisions, a management can only stumble and fall. Efficiency falters and decisions are made after the fact, resulting in one emergency after another.

Cost accounting is an orderly process of using the principles of general accounting to record the expenses of operating a business. The various accounts may be used to ascertain production and total costs of each piece of merchandise for the purpose of securing economical, efficient and profitable operation. The inherent costs of the business can thus be known in detail and explicitly. Such information is useful because it shows what was done, how it was done, what it cost, for what it sold and what profit was made. With this information as a guide, it is often possible to increase output, devise more efficient methods, reduce costs and increase profits. Cost accounting provides complete and reliable records of business transactions.

The following is a general description of a system which was designed for a goldsmith operation. Its content is described in sufficient detail to give other types of craftsmen or artists the possibility of adapting some parts of the system to their own particular circumstances.

I. General Description of System

Each project or item of merchandise produced for a client or for inventory will have a job number assigned to it before any work or material is expended on it. A selling price will be established for each job from which the following expenses will be deducted to determine the net resultant profit.

Materials

- Material - direct
 - Gems
 - Vendor Items
 - Indirect

Labor

Direct - applied
Indirect Labor
Design Labor

Overhead and Administrative

Marketing Expenses

The following 3 x 5 card is to be used to record, by job number, the basic data from which cost and other relevant information can be acquired and filed:

Front of Card

Customer Name _____			Job No. _____	
Street Address _____			Sched S _____	
City & Zip Code _____			Sched F _____	
Telephone No. _____			Actual F _____	
	ESTIMATES		ACTUAL	
Selling Price				
Materials				
Labor				
Design				
OHD Expense				
Marketing Exp.				
Net Profit				

Back of Card .

LABOR AND MATERIALS RECORD				
Date	Labor (Minutes)		Materials	
	Design	Applied	Description	Cost

The steps that follow should be taken for each job that is started:

1. Assign job number and record a start date and finish date schedule in the upper righthand corner of the front of the card.
2. Record the name, address and telephone number of the customer. If for inventory, so indicate in this space (upperleft corner of card on the front).
3. Record the estimated elements of cost along with the selling price negotiated or desired, if job is for inventory (left side of card on front). Deduct the costs from the selling price and determine the estimated profit.

At this point, the job is numerically identified and the customer is recorded. The job is scheduled and an estimated profit is established.

Performance can be appraised as one works on the given project to determine if

the goal will be reached as predicted.

4. Once work commences and materials are allocated to the job, one must make the appropriate entries on the reverse side of the job card. On the left, a place is shown for the date on which work is done. The time in minutes should be recorded along with the materials used on that date.
5. Upon completion of the job, the following should be recorded on the job card:
 - a) The date the job is finished (front side)
 - b) The accumulated costs of labor and material recorded on the back side of the card should be posted to the corresponding items under the actual section. The indirect labor and material costs should be calculated and added to the direct costs and recorded in the proper place under the actual section.
6. Calculate the overhead and marketing expenses and record.
7. The net profit should not be calculated by subtracting all the recorded costs from the selling price.
8. An evaluation of performance can now be conducted by comparing the respective costs to earlier recorded estimates and profit.

II Definition of Accounts and Terms

Selling Price

This amount represents the total receipts of funds from a client for merchandise sold. Any sales tax is included in this gross amount. This tax is included as an expense in the marketing expense account.

Material Costs

This category is broken down into four types:

Material-Direct

Represents costs for basic raw materials such as silver, gold or other construction materials that go directly into a specific piece or job, and easily assignable to it.

Gems

Represents direct cost of gems and/or other complementary feature items that become an integral part of the specific price.

Vendor Materials

Represents the cost of major accessory items such as chairs, frames, hangers, etc., that are bought from others.

Indirect Materials

Represents the cost of materials that are not easily assignable to a particular job or piece, such as: gases, solders, polishing agents, etc. These items are quantitatively difficult to assign to a job directly. A

percentage of the direct material (based on experience and an estimate of annual consumption of such direct materials) should be used to estimate and cost a particular job.

The addition of the above material elements will constitute the total material input of a given piece.

Labor Costs

This category is broken down into three types:

Direct Labor

Represents the time one spends on the production of a piece. This assignable time should be recorded in minutes and multiplied by a competitive dollar rate for determination of direct labor cost.

Indirect Labor

Represents production labor costs that are of a general nature and not easily assignable to a specific job.

Examples of this element are setting up or laying out a process for several pieces such as casting, polishing, washing or cleaning several pieces, etc.

A percentage of direct labor should be used to estimate and cost a particular job (based on experience and annual estimates).

Design Labor

Represents direct and assignable time designing, drawing, sketching and developing a piece for a customer or for inventory.

The addition of the above labor elements will constitute the total labor input of a given piece.

Overhead and Administrative Expenses

These expenses are those that indirectly support the production of jobs and pieces of merchandise. These costs cannot be seen in the work, but are necessarily supportive of the production and design work. Typical items follow:

Car Expenses	Postage
Gasoline and Oil	Rent
Depreciation	Repairs
Dues and Publications	General Supplies
Employee Benefit Programs	Taxes
Freight	Telephone
Insurance	Travel and Entertainment
Interest Charges	Utilities
Cleaning	Wages
Legal and Professional Svcs	Uncataloged Equipment
Office Supplies	Scrap and Waste
Over/Under Liquidation	(Thrown Away)

A percentage of direct labor is to be used for costing and estimating this element of cost. Periodically, the balance between the total periodic actual costs and the estimates to date will be written down through the Overhead Over/Under Liquidation Account.

Marketing Expenses

These expenses are those that influence the acquisition of sales and are expended to help promote and grow the revenue volume.

Typical items follow:

Advertising	Sales Taxes
Commissions	Show/Conventions
Sales Expenses	Display Expenses

A percentage of marketing expense is to be used for costing and estimating this element of cost.

Periodically, the balance between the total periodic actual costs and the estimates to date will be written down through the Marketing Over/Under Liquidation Account.

Net Profit

This is the difference between the selling price and all the expenses recorded against a particular job (all Material Costs plus Labor Costs, Overhead and Marketing Costs).

% PTS

This is the percentage of Profit to Selling Price. Any figure below 5% should be unacceptable and one over 10% will represent good performance.

Pricing Formula

In estimating what price should be used with client,
the following calculation is to be used:

$$\text{Selling Price} = 2 \times (\text{Labor Cost Estimates} + \\ \text{Material Cost Estimates} + \\ \text{Overhead Expense Estimates} + \\ \text{Marketing Expense Estimates})$$

FOOTNOTES

- ¹ Carl Heyel, ed. The Encyclopedia of Management (New York: Von Nostrand Reinbold Co., 1973), pp. 182.
- ² John Kenneth Galbraith, "The Market System and the Arts," Studio, June 1974, pp. 270.
- ³ William R. Spriegel, Principles of Business Organization (New York: Prentice-Hall, Inc., 1946), pp. iii.
- ⁴ Daniel S. Warner, Marketing and Distribution: an overview (New York: McGraw-Hill, Inc., 1969), pp. 7.
- ⁵ Bost Enterprises, 1977 Guaranteed Tax Plan, 1977, pp. 40.
- ⁶ Spriegel, pp. 84.
- ⁷ Bost Enterprises, pp. 40.
- ⁸ Bost Enterprises, pp. 40.
- ⁹ Heyel, pp. 106.
- ¹⁰ Antonio M. Olmi, "Selecting the Legal Structure for Your Firm" (New Mexico: MA 231, Management Aids for Small Manufacturers, U.S. Small Business Administration, 1977), pp. 4.
- ¹¹ Olmi, pp. 4.
- ¹² Bost Enterprises, pp. 44.
- ¹³ Bost Enterprises, pp. 44.
- ¹⁴ Olmi, pp. 4.
- ¹⁵ Olmi, pp. 4.

- ¹⁶ Olmi, pp. 5.
- ¹⁷ Olmi, p. 5.
- ¹⁸ Bost Enterprises, pp. 45.
- ¹⁹ Bost Enterprises, pp. 45.
- ²⁰ Olmi, p. 5
- ²¹ Bost Enterprises, p. 46.
- ²² Olmi, p. 6.
- ²³ Olmi, p. 6.
- ²⁴ Olmi, p. 6.
- ²⁵ John W. Wyatt and Madie B. Wyatt, Business Law: Principles and Cases (New York: McGraw-Hill Book Company, 1975), pp. 554.
- ²⁶ Christine Ammer and Dean S. Ammer, Dictionary of Business and Economics (New York: The Free Press, 1977), pp. 97.
- ²⁷ Heyel, p. 124.
- ²⁸ Heyel, p. 106.
- ²⁹ Ammer and Ammer, p. 95.
- ³⁰ Ammer and Ammer, p. 222.
- ³¹ Ammer and Ammer, p. 123.
- ³² Daniel S. Warner, Marketing and Distribution: an overview (New York: McGraw-Hill, Inc., 1969), pp. 76-7.
- ³³ Warner, pp. 77.
- ³⁴ Warner, p. 78.
- ³⁵ Warner, p. 78.
- ³⁶ E. Patrick McGuire and Lois Moran, Pricing & Promotion (New York: American Crafts Council, 1979), p. 80.

- 37 McGuire and Moran, p. 82.
- 38 Garry Barker, "The Catalog: Marketing by Mail," Craft Horizons, April 1976, p. 7.
- 39 Warner, p. 78.
- 40 Barker, p. 7.
- 41 McGuire and Moran, p. 34.
- 42 Warner, p. 79.
- 43 McGuire & Moran, pp. 33-34.
- 44 McGuire & Moran, p. 34.
- 45 Warner, p. 80.
- 46 Heyel, p. 538.
- 47 Mack Hanan, Market Segmentation: the basis for new product innovation and old product renovation (AMA Inc., 1968), p. 3.
- 48 Hanan, p. 3.
- 49 Hanan, p. 3.
- 50 Hanan, p. 3.
- 51 Hanan, p. 5.
- 52 Hanan, p. 5.
- 53 Hanan, p. 7.
- 54 Hanan, p. 10.
- 55 Hanan, p.p. 8 - 9.
- 56 Hanan, p. 10.
- 57 Hanan, p. 28.
- 58 Hanan, p. 14.

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